SUPPLEMENT TO THE ANNUAL INFORMATION STATEMENT UPDATE

OCTOBER 15, 2013

The Division of the Budget ("DOB") is currently assessing the potential economic and financial impact on the State arising from the failure of the Federal government to enact a budget or otherwise provide funding for the operations of government for the Federal fiscal year that began October 1, 2013. DOB is also evaluating, albeit speculatively, the potential ramifications for the State's economy and financial operations if the Congress fails to raise the debt ceiling and the Federal government has no other options to meet its obligations. DOB will continue to monitor developments and will issue additional supplements as needed.

Federal Budget Impasse

The State receives a substantial amount of Federal aid. Through the first quarter of FY 2014, the State received Federal grants in excess of $10.7 billion, including $6.1 billion for Medicaid. In total, the State's current Financial Plan reflects total estimated Federal receipts of approximately $47.4 billion in FY 2014. This represents 33.6 percent of All Governmental Funds estimated receipts for FY 2014. As of the date of this Supplement, the State has not experienced any disruption in major aid payments or observed any materially adverse financial or economic impact from the Federal budget impasse and partial shutdown of operations. Based on an analysis of existing appropriation authority and other factors, DOB believes that only a protracted Federal budget impasse and government shutdown would be expected to have a material adverse impact on the receipt of Federal funds for, including among other things, Medicaid, unemployment insurance, transportation, education, and disaster relief.

Debt Ceiling

On October 1, 2013, the Treasury Secretary informed Congressional leaders that if Congress does not raise the Federal debt ceiling in a timely manner, the Federal government will not have sufficient funds available to meet all of its current obligations. It is unclear what steps the Federal government would take at that point with respect to payment obligations. The Treasury Secretary informed Congress that, "[i]n May of this year [2013], the U.S. government reached the statutory debt limit, and Treasury began taking certain extraordinary measures to be able to continue, on a temporary basis, to pay the nation's bills. Today, I am writing to inform Congress that as of today Treasury has begun using the final extraordinary measures. There are no other legal and prudent options to extend the nation's borrowing authority . . . and Treasury continues to believe that extraordinary measures will be exhausted no later than October 17, 2013."

A Federal government default on payments, particularly if it persisted for a prolonged period, can be expected to have a materially adverse effect on the national and state economies, financial markets, and intergovernmental aid payments. The Treasury Department has said:

> "In the event that a debt limit impasse were to lead to a default, it could have a catastrophic effect on not just financial markets but also on job creation, consumer spending and economic growth—with many private-sector analysts believing that it would lead to events of the magnitude of late 2008 or worse, and the result then was a recession more severe than any seen since the Great Depression. Considering the

> experience of countries around . . . world that have defaulted on their debt, not only might the economic consequences of default be profound, those consequences, including high interest rates, reduced investment, higher debt payments, and slow economic growth, could last for more than a generation."

The specific effects on the State Financial Plan of a Federal government payment default are unknown and impossible to predict at this time. However, data from past economic downturns suggest that the State's revenue loss could be substantial if the economy goes into a recession due to a Federal default, according to DOB. For context, during the last recession New York lost 324,000 jobs, State wages fell 7.2% in 2009, and taxable capital gains realizations fell 52% in 2008 and 41% in 2009.

A payment default by the United States may adversely affect the municipal bond market, as well. Municipal issuers, including the State, could face higher borrowing costs and impaired market access. This would jeopardize planned capital investments in roads and bridges, higher education facilities, hazardous waste remediation, environmental projects, and economic development projects. Additionally, the market for and market value of outstanding municipal obligations, including municipal obligations of the State, could be adversely affected.